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SUBJECT: TUSIAD CHIEF QUESTIONS GOT ECONOMIC REFORM
COMMITMENT

Classified By: Classified by Consul General Sharon Wiener for reasons
1.4 (b,d)

¶1. (Summary) (C) Arzuhan Yalcindag, President of the Turkish Industrialists' and Businessmen's Association (TUSIAD), on August 12 told the Consul General that recent developments and a round of ministerial-level meetings in Ankara left her pessimistic about the GOT's commitment to economic reform and engagement with the IMF. Stressing her organization's apolitical nature, she characterized the Prime Minister and his inner circle as increasingly insecure and driven by short term political expediency in economic policy making. Yalcindag complimented the GOT on its Kurdish initiative. She was receptive to the idea of collaborating with groups like the ABFT (American Business Forum in Turkey) on shared policy objectives. When CG raised the upcoming Friends of Democratic Pakistan summit, Yalcindag said that she had not heard from the government about this, but that there might be potential interest by some TUSIAD members. End summary.

TURKEY'S ECONOMIC PICTURE MIXED

¶2. (SBU) Yalcindag interrupted a vacation to brief the CG in her Dogan office on TUSAID's recent meetings in Ankara with ministers and political party senior representatives. Opening with a conventional analysis of Turkey's economy, Yalcindag noted that Turkey's finance sector was faring relatively well in view of the global situation, and that real interest rates in Turkey were at historical lows and the exchange rate was encouraging. The stock exchange had performed extremely well over the last five months.

¶3. (SBU) Nonetheless, economic contraction, unemployment and declining trade figures remained problems. She said TUSIAD members forecasted Turkey's economy could contract by as much as 7 percent in 2009, and the budget deficit could represent about six percent of GDP by year end - a major concern.

¶4. (C) As an aside, Yalcindag offered an observation concerning the much discussed "Errors and Omissions" item that has brought perhaps 19 billion USD into Turkey's Treasury since the beginning of the year. A widely held view among financial observers is that most of this money has come from Turkish "corporates" who have repatriated offshore money. Yalcindag disputed this, opining that only 4-5 billion USD came from Turkish corporates, and that a good part of the balance may be coming in "under the table" from Iraq, Iran and other unnamed sources

15. (C) Yalcindag stressed that the GOT was not focused on the structural reforms in public expenditure and revenue collection that were crucial for Turkey's long-term development. She offered that higher revenue collection and more transparency and efficiency in public expenditure are necessary for Turkey's economic recovery and prosperity. Yalcindag added that Turkey very much needed an IMF deal for medium-term fiscal discipline, but the AKP's agenda trumps reform or a deal with the IMF. Some companies would benefit in the near term from politically oriented economic approaches, but this was unsustainable in the long run.

16. (C) The TUSIAD President attributed much of the party leadership's flagging attention to real economic reform to its growing political insecurity since the 2007 closure case against the AKP. The Prime Minister and his inner circle now seemed to be under a siege mentality, and far less open to criticism or discussion. Even DPM Ali Babacan had changed, she noted. The Prime Minister, when pressed in a meeting with TUSIAD earlier in the year (TUSIAD did not meet the PM during its recent Ankara trip) to rationalize revenue collection, responded flatly that the current system would not be changed because the GOT had to be able to stimulate or favor specific sectors. In the same vein, Yalcindag reported that when she asked people in the AKP with whom TUSIAD has reasonably close ties why nothing was being done to try to bring the "unregistered economy" in Turkey into the sunlight, the response was "the unregistered economy cannot be touched."

17. (C) Yalcindag said she saw little evidence of debate among economic ministers on reform issues and asserted that meaningful economic reform lacked any real advocates in the government. She concluded that the AKP was caught up in a perpetual election cycle which prevented it from making hard decisions on matters like the budget and the unregistered economy. This tendency, and its "us versus them" mentality, encouraged the GOT merely to maintain the status quo on major economic issues with the hope that no viable opposition party will coalesce in the near future. The Prime Minister was already thinking about the next parliamentary elections, which some believed would be held in autumn 2011.

PRIVATE SECTOR CHILLED

18. (C) According to Yalcindag, compounding this lack of debate within the government was a chilling of advocacy - public and private -- among the business community. Public statements by individual companies on specific policies often provoked strident calls by the Prime Minister personally to the company CEO. Ergenekon and other prosecutorial actions further inhibited corporate and individual outspokenness. She said that she herself was much less courageous in this regard than she had been.

19. (C) Upon the CG's inquiry about TUSIAD's collaboration with other Turkish business bodies, Yalcindag expressed hope for future cooperation with the conservative and pro-AKP MUSIAD (Independent Industrialists and Businessmen's Association) but less so for TUSKON (Confederation of Businessmen and Industrialists), which she views as totally beholden to the government. TUSIAD would like to establish partnerships with U.S. groups like the Conference Board to help them penetrate regional U.S. markets, and to establish a degree of the institutional support and ease that they enjoy in the European Union (EU). She observed that the decentralization of U.S. business organizations complicated their efforts in this regard. Yalcindag responded favorably to the CG's suggestion that TUSIAD communicate with the American Business Forum in Turkey (ABFT) about possible collaboration on shared policy objectives. Within Turkey, for example regarding economic reforms.

KUDOS TO GOT ON KURDISH INITIATIVE

¶10. (SBU) Yalcindag applauded the GOT for its efforts to address the Kurdish issue, and Erdogan for his recent meeting with DTP (Democratic Society Party) leader Ahmed Turk. She reported that her much publicized meeting with Turk was not intended to be political; it had been scheduled well before the GOT's Kurdish initiative and was consistent with TUSIAD's practice of consulting with all major parties. Yalcindag expressed satisfaction that her meeting's timing and publicity appeared to facilitate the government's initiative. "We're happy to support them when they're doing the right things."

FRIENDS OF DEMOCRATIC PAKISTAN

¶11. (SBU) Reporting that the August 24-25 GOT-hosted Friends of Democratic Pakistan may have a private sector dimension, the CG inquired about TUSIAD's possible role or interest. Noting that TUSIAD was officially closed most of August, Yalcindag said she had not heard from the government on the issue. She acknowledged potential interest by some of the TUSIAD membership.

BILATERAL ECONOMIC RELATIONSHIP

¶12. (SBU) Upon inquiry by the CG about TUSIAD's posture and activities on enhancing the bilateral economic relationship in the wake of President Obama's visit, Yalcindag conveyed a previously shared TUSIAD policy paper and reiterated TUSIAD's interest in boosting the relationship. She expressed special TUSIAD interest in a "CEO Forum" to invigorate private sector opportunities and activities.

¶12. COMMENT (C) Noteworthy in the TUSIAD discussion was a sense of frustration, bordering on betrayal, on the part of

the TUSIAD leadership. Many of them, though not traditional political or cultural allies of the AKP, supported Erdogan in 2007 because they believed that his government had done a good job on the economy since 2001, and that this effort was largely enhanced by the dual anchors of the European Union accession process and IMF engagement. Now they sense that Erdogan's domestic political imperatives have trumped any commitment to economic reform and that the historically influential business elite are on the outside looking in. For now, self-censorship stemming from fear of political retaliation, and competing agendas among Turkey's many business organizations, do not augur well for internally generated impetus for economic reform. (Note: Recent informal discussions with other TUSIAD board members reflect the same frustration with the Prime Minister's unwillingness to address key economic reforms or take advice on economic issues. We therefore believe Yalcindag's views reflect her objective appraisal as the head of TUSIAD and not bitterness about the government's tax case against her father, Aydin Dogan. End note). End comment.

WIENER